Appendix 22

Indirect Cost Reimbursement

Accounting for Costs for Granger-Thye Fee Offset 05-20-2002

Summary

Offset of indirect costs under Granger-Thye (GT) fee agreements should conform to Office of Management and Budget (OMB) Circular A-87 for State and Local Governments, OMB Circular A-122 for Non-Profit Organizations, and the Federal Acquisition Regulation (FAR) Part 31 for Commercial (For-Profit) Entities when the holder performs fee offset work. Alternatively, when the Forest Service performs fee offset work under a collection agreement, agency indirect costs should conform to FSH 1509.11, Chapter 33 and indirect cost rates established nationally (e.g. the FY2002 rate is 18%).

The following guidance applies to reimbursement of actual costs to commercial entities holding GT permits. The guidance is excerpted from 48 Code of Federal Regulations (CFR) Part 9904, but has been tailored to address GT agreements. Two methods of determining indirect costs are provided: (1) a cost pool method and (2) a simplified method. If a holder chooses to claim reimbursement for indirect cost, the holder must submit their rate and supporting documentation to the agency for review and approval. A fixed rate will be agreed to that will apply to all permits of the holder.

Cost principles for non-profit entities and state or local governmental entities are not addressed below, but can be found in OMB circulars referenced above. The following guidance does not address the reimbursement of agency indirect costs.

Guidance for Offsetting Indirect Costs by Commercial Entities

GT Agreements

Section 7 of the GT Act authorizes the Forest Service to offset all or part of the permit fee by the cost of renovation, reconditioning, improvement, and maintenance performed at the holder's expense on facilities covered by the permit. A GT agreement provides for offset of allowable incurred costs to the extent prescribed in the agreement. The holder is reimbursed actual costs for performing the work and only an agreed-upon portion of allowable costs may be used to offset the holder's permit fee.

The GT agreement should establish an estimate of total costs to be offset and a ceiling that the holder may not exceed (except at its own risk). Use of a GT agreement requires (1) that the holder's accounting system is adequate for determining allowable costs and (2) that Government observation during performance will provide reasonable assurance that efficient methods and effective cost controls are used.

Costs That May be Offset Under a GT Agreement: Allowable Costs

Total allowable costs may be offset under a GT agreement to the extent they do not exceed the total annual fee for the corresponding permit.

Costs are allowable if they are (1) allocable, (2) actual, (3) reasonable, and (4) not unallowable, in accordance with the Cost Accounting Standards (CAS) promulgated by the CAS Board; the terms of the applicable permit and GT agreement; and this guidance. If a holder's costs are inconsistent with CAS, costs resulting from the inconsistent practice shall not be allowed in excess of the amount that would result from using practices consistent with CAS.

1. Allocable Costs

The total costs of an agreement include all costs properly allocable to the agreement. A cost is allocable if it is assignable to one or more cost objectives on the basis of relative benefits received or some other equitable relationship.

A cost objective is a function, organization subdivision, contract, or other work unit for which cost data are desired and for which provision is made to accumulate and measure the cost to processes, products, jobs, and capitalized projects. See 48 CFR 9904.405. Final cost objective means a cost objective that has allocated to it both direct and indirect costs. Additionally, the GT agreement is a final cost objective separate from campground operation and other business of the holder.

Both direct and indirect costs are allocable to the GT agreement.

a. Direct Costs

Costs are direct if they can be assigned to a particular final cost objective. Direct costs are not limited to items that are incorporated in the end product as material or labor. No final cost objective shall have allocated to it as a direct cost any cost, if other costs incurred for the same purpose in like circumstances have been included in any indirect cost pool to be allocated to that or any other final cost objective (e.g. travel charged to one GT agreement directly and to another GT agreement indirectly). With respect to GT fee offset, costs identified specifically with a GT agreement are direct costs. All costs identified specifically with other final cost objectives of the holder are direct costs of those cost objectives. See 48 CFR 9904.402.

b. Indirect Costs

Costs are indirect if they are not directly identified with a single final cost objective, but rather are identified with two or more final cost objectives. After direct costs have been charged to a GT agreement or other cost objectives, indirect costs are those remaining to be allocated among cost objectives. An indirect cost shall not be allocated to a final cost objective if other costs incurred for the same purpose in like circumstances have been included as a direct cost of that or any other final cost objective. Indirect costs shall be accumulated by logical cost groupings with due consideration of reasons for incurring such costs. Indirect costs are necessary to the overall operation of the business, even if a direct relationship to any particular cost objective cannot be shown.

Each pool should be determined so as to allow allocation of the pool on the basis of benefits accruing to the several cost objectives. The holder’s method of allocating indirect costs shall be in accordance with CAS.

The base period for allocating indirect costs is the accounting period during which the costs are incurred. The base period is normally the contractor’s fiscal year, unless performance involves only a minor portion of the fiscal year, so long as large lump sum payments are appropriately amortized for the entire year. The fiscal year is the accounting period for which annual financial statements are regularly prepared, which is generally a period of 12 months, 52 weeks, or 53 weeks.

c. Consistency in Allocating Direct and Indirect Costs

All costs incurred for the same purpose, in like circumstances, shall be allocated consistently as either direct costs or indirect costs with respect to all final cost objectives. The purpose of this standard is to require that each type of cost be allocated only once and on only one basis to prevent double counting. The criteria for determining the allocation of costs should be the same for all similar final cost objectives.

2. Actual Costs

Costs are actual if they are incurred, rather than forecasted. See 48 CFR 9904.405.

3. Reasonable Costs

Costs are reasonable if in their nature and amount they do not exceed the costs that would be incurred by a prudent person in the conduct of competitive business, i.e., the type of costs generally recognized as ordinary and necessary for the conduct of the holder's business.

4. Unallowable Costs

Costs are unallowable if they are expressly designated as such under this guidance or under a GT agreement. The following costs are expressly unallowable in a GT agreement: costs of corporate celebrations, promotional material, memberships in civic and community organizations, bad debts, gifts, entertainment, airfare in excess of coach fare, alcoholic beverages, advertising (unless required for the conduct of work authorized under a GT agreement), lobbying, political activities, bonuses in excess of the remunerative value of an employee's work function, partnership prorations, insurance not required by the permit, self-insurance, interest, attorney's fees, and any cost that the Government is prohibited from reimbursing by law or regulation.

Refer to Cost Accounting Standards, FAR 31, or OMB circulars for more detail on what constitutes unallowable costs.

Unallowable costs shall not be included in indirect cost pools. In addition, unallowable costs shall be excluded from any billing, claim, or proposal applicable to a GT agreement. Accounting for and presentation of unallowable costs shall conform to the standards set forth in 48 CFR 9904.405 or some other accepted accounting standard such as GAAP.

Determining an Indirect Cost Rate

Before indirect costs may be offset under a GT agreement, the holder must disclose its accounting procedures and must certify that its determination of indirect cost conforms to CAS and this guidance.

For New Permits: an applicant proposing to perform GT fee offset work must submit his or her accounting procedures and historical indirect cost rate in response to a prospectus.

For existing permits: a holder must submit its proposed indirect cost rate and supporting documentation to the authorized officer for approval. The Forest Service may review and determine a reasonable indirect cost rate. It is recommended that a contracting officer or designated representative review the proposed indirect cost rate.

Cost Pool Method

Sample Indirect Cost Rate Calculation:

Indirect Cost Pool (1) / Allocation Base (2) = Indirect Cost Allocation Rate (3)

(1) The indirect cost pool can usually be extracted from the year-end income statement that identifies and summarizes these types of costs. However, this total pooled amount must exclude all amounts previously identified as unallowable costs.

(2) The allocation base can usually be extracted from the year-end income statement that identifies and summarizes costs of goods and services sold. However, the allocation base can also be calculated using other non-monetary measures, such as direct labor hours or floor space.
Whatever the allocation base, once established, it must be consistently applied for all of the holder's operations.

(3) The indirect cost allocation rate (ICAR) is an annualized rate determined by the ratio of the indirect cost pool to the allocation base. Once established, the ICAR is multiplied by the allocation base for a specific cost objective to determine the amount of indirect costs that are allocable to that specific cost objective. The allocation base of the individual cost objective must be consistent with the overall allocation base used to establish the rate.

Simplified Method

Total Cost	=	Unallowable Expenditures	+	Indirect Cost	+	GT Direct Expenditures	+	Non GT Direct Expenditures
(T)	=	(U)	+	(A)	+	(B)	+	(C)

Indirect Cost Rate = (A) / (B) + (C)
Review of Indirect Cost Rates

For the businesses associated with the concession campground program, a fixed rate is most appropriate. A fixed rate is agreed to in advance. It estimates the holder's future costs (based on historical costs). It is not retroactively adjusted at the end of the fiscal year. Instead, the difference between estimated and actual costs will be the basis for adjusting the rate for future years (for additional guidance, see Implementation Guide for OMB Circular A-87, Part 6 Attachment E). The following guidelines may be helpful in reviewing indirect cost rate proposals.

1. Review the submission for materiality, completeness, and reliability of supporting data, including audited financial statements.

2. Acknowledge receipt and request any needed additional information.

3. Review prior negotiation and audit experience; assess prior agreements and applicable conditions.

4. Assess the submission's general reliability and business entity's financial condition (new permits only).

5. Determine the extent to which coordination with other Forests or Regions may be necessary.

6. Review the proposal for accuracy and determine whether it includes all activities and costs of the business entity.

7. Determine whether unallowable costs have been excluded and whether allocation methods and billing mechanisms are appropriate and properly designed.

8. Assess what the appropriate rate base (e.g. salaries and wages, modified total direct cost) should be for the resulting indirect cost rate and the extent to which any rate established should be subsequently adjusted.

Claiming reimbursement

Before any offset may be given under a GT agreement, the holder must disclose its accounting practices and must certify that its determination of costs conforms to CAS and this guidance. Unallowable costs shall be excluded from any billing, claim, or proposal applicable to a GT agreement. The holder must sign and date a certification that the claimed costs meet these criteria and must maintain supporting records for the term of the permit. Costs claimed for reimbursement are subject to audit.

Proper Cost Accounting (adapted from 48 CFR 9904.405)

A holder is responsible for accounting for costs properly and maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the GT agreement, and comply with CAS, GAAP, or FAR Part 31.2 and this guidance. The holder must disclose its accounting practices with regard to the distinction between direct and indirect costs and provide specific criteria for making such distinctions.

A holder's practices used to estimate costs in pricing a proposal for a GT campground concession shall be consistent with the holder's accounting practices used to accumulate and report costs.

A holder's accounting practices used to accumulate and report actual costs for a permit or GT agreement shall be consistent with the holder's practices used to estimate costs in pricing the proposal relating to that permit or agreement.

The cost of any project not authorized by a GT campground concession permit or GT agreement, whether or not related to performance of a proposed or existing permit, shall be accounted for, separately from the cost of projects authorized by a permit or GT agreement.

The holder's fiscal year shall be used as the holder's cost accounting period, except that an annual period other than the fiscal year may be used if it is an established practice of the holder. The holder shall follow consistent practices in selecting cost accounting periods in which any types of expense and adjustments to expense are accumulated and allocated.

The same cost accounting period shall be used for accumulating costs in indirect cost pools and for allocation of costs to cost objectives.

The holder shall have and consistently apply written statements of accounting practices for accumulating the costs of material and allocating costs of material to cost objectives.

Labor costs, whether direct or indirect, including salary, benefits, travel, training, unemployment and compensated personal absence, shall be assigned to the cost accounting periods in which the entitlements were earned. The costs of compensated personal absence for an entire cost accounting period shall be allocated annually on a pro rata basis among the final cost objectives of that period.